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STRATEGIC SOURCING

Improved and
Expanded Use Could
Save Billions in
Annual Procurement
Costs



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Why GAO Did This Study

GAO has reported that the government is not fully leveraging its aggregate buying power, and that strategic sourcing, a process that moves a company away from numerous individual procurements to a broader aggregate approach, allowed companies to achieve savings of 10 to 20 percent. A similar savings rate applied to the federal procurement budget would equal more than \$50 billion dollars. In 2005, the Office of Management and Budget directed agencies to use strategic sourcing and established the FSSI program to manage governmentwide efforts. GAO was asked to assess (1) the extent to which selected agencies managed spending and achieved savings through strategic sourcing, (2) key challenges selected agency and FSSI officials face in strategically sourcing products and services, and (3) the extent to which the FSSI program managed spending and achieved savings through strategic sourcing. To do this, GAO selected four agencies that were among the highest in fiscal year 2011 procurement obligations—DOD, DHS, VA, and Energy—and reviewed governmentwide FSSI efforts. For each, GAO analyzed strategic sourcing data and policies, and interviewed responsible officials.

What GAO Recommends

GAO recommends a number of actions OMB, DOD, and VA can take to achieve more savings, such as applying strategic sourcing practices to their highest spending procurement categories, and setting targets for use of strategic sourcing contracts. All three agencies concurred with our recommendations.

View [GAO-12-919](#). For more information, contact Cristina Chaplain at (202) 512-4841 or chaplainc@gao.gov.

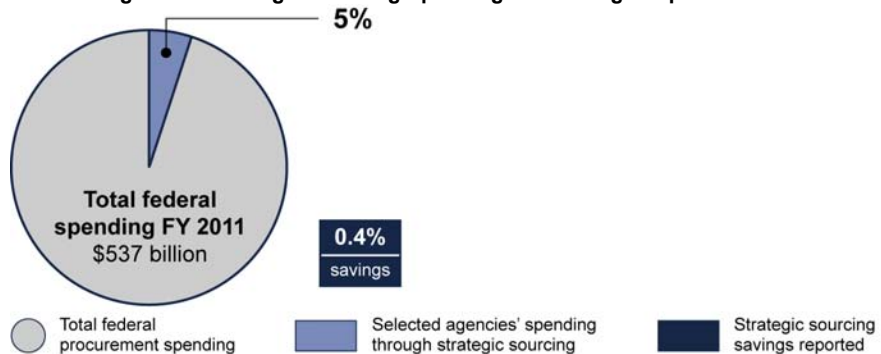
STRATEGIC SOURCING

Improved and Expanded Use Could Save Billions in Annual Procurement Costs

What GAO Found

Selected agencies leveraged only a fraction of their buying power through strategic sourcing and achieved limited savings. In fiscal year 2011, the Departments of Defense (DOD), Homeland Security (DHS), Energy, and Veterans Affairs (VA) accounted for 80 percent of the \$537 billion in federal procurement spending, but reported managing about 5 percent or \$25.8 billion through strategic sourcing efforts. These agencies reported savings of \$1.8 billion—less than one-half of one percent of procurement spending. While strategic sourcing may not be suitable for all procurement spending, leading companies strategically manage about 90 percent of their procurements and report annual savings of 10 percent or more. Further, most agencies' efforts do not address their highest spending areas such as services, which may provide opportunities for additional savings.

Selected Agencies' Strategic Sourcing Spending and Savings Reported in FY 2011



Source: GAO analysis of federal procurement and selected agencies' data.

Note: FY = fiscal year.

Most selected agencies and the Federal Strategic Sourcing Initiative (FSSI) program have not fully adopted a strategic sourcing approach. In prior work, GAO found that sustained leadership and effective metrics are important factors to implementing strategic sourcing. However, leaders at DOD have dedicated limited resources to strategic sourcing, and leaders at VA and Energy are just beginning to align resources for agencywide strategic sourcing efforts. A lack of clear guidance on metrics for measuring success has also impacted the management of ongoing FSSI efforts as well as most selected agencies' efforts. In contrast, DHS leaders stood up a centralized office and hold senior managers accountable to meet goals. DHS sets targets for use of strategic sourcing contracts, and reported that nearly 20 percent of its fiscal year 2011 procurement spending was directed through strategically sourced contracts.

The FSSI program managed little spending through strategic sourcing initiatives, but reported considerable savings. In fiscal year 2011, the program managed \$339 million through several governmentwide initiatives and reported \$60 million in savings. However, total spending through the program remains low, in part, because the FSSI contracts have low rates of use and the program has not yet targeted the products and services on which the government spends the most.

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Abbreviations

AT&L	Acquisition, Technology, and Logistics
DHS	Department of Homeland Security
DLA	Defense Logistics Agency
DOD	Department of Defense
DPAP	Defense Procurement and Acquisition Policy
FPDS-NG	Federal Procurement Data System-Next Generation
FSSI	Federal Strategic Sourcing Initiative
GSA	General Services Administration
OFPP	Office of Federal Procurement Policy
OMB	Office of Management and Budget
OSD	Office of the Secretary of Defense
PASS	Program Acquisition and Strategic Sourcing
VA	Department of Veterans Affairs
VHA	Veterans Health Administration

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United States Government Accountability Office
Washington, DC 20548

September 20, 2012

The Honorable Joseph I. Lieberman
Chairman
The Honorable Susan M. Collins
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Darrell E. Issa
Chairman
The Honorable Elijah E. Cummings
Ranking Member
Committee on Oversight and Government Reform
House of Representatives

In fiscal year 2011, the federal government obligated approximately \$537 billion on products and services. Given the increasing fiscal pressures facing the United States, there has been a renewed focus on maximizing efficiencies in the procurement process to achieve cost savings. In prior reports, we found that private industry best practices in strategic sourcing, a process—sometimes led by a central procurement organization—that moves a company away from numerous individual procurements to a broader aggregate approach, allowed companies to achieve savings of 10 to 20 percent of total procurement costs.¹ We have also reported that because procurement within the federal government is generally decentralized, the government is not fully leveraging its aggregate buying power and could benefit from adoption of strategic sourcing practices. For example, saving even 10 percent of the total federal procurement spending would produce more than \$50 billion in savings annually.²

¹GAO, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, [GAO-11-318SP](#) (Washington, D.C.: Mar. 1, 2011); *Best Practices: Using Spend Analysis to Help Agencies Take a More Strategic Approach to Procurement*, [GAO-04-870](#) (Washington, D.C.: Sept. 16, 2004); *Best Practices: Improved Knowledge of DOD Service Contracts Could Reveal Significant Savings*, [GAO-03-661](#) (Washington, D.C.: June 6, 2003); and *Best Practices: Taking a Strategic Approach Could Improve DOD's Acquisition of Services*, [GAO-02-230](#) (Washington, D.C.: Jan. 18, 2002).

²[GAO-11-318SP](#).

In 2005, the Office of Management and Budget (OMB) directed federal agencies to develop and implement a strategic sourcing effort to help control spending. A governmentwide strategic sourcing program—known as the Federal Strategic Sourcing Initiative (FSSI)—was also established. The FSSI Program Management Office is located within the General Services Administration (GSA) and the program reports to OMB's Office of Federal Procurement Policy (OFPP). You requested that we review the status of strategic sourcing efforts both at selected agencies and governmentwide, and identify challenges, leading practices, and potential for additional strategic sourcing savings. Accordingly, we assessed (1) the extent to which selected agencies managed spending and achieved savings through strategic sourcing, and whether buying power could be better leveraged; (2) key challenges agency and FSSI officials face in strategically sourcing products and services; and (3) the extent to which FSSIs managed spending and achieved savings through strategic sourcing, and whether governmentwide buying power could be better leveraged.

To conduct our work, we reviewed strategic sourcing efforts at four agencies—Department of Defense (DOD), Department of Homeland Security (DHS), Department of Veterans Affairs (VA), and Department of Energy (Energy)—that were among the 10 agencies with the highest fiscal year 2011 procurement obligations. To more fully assess strategic sourcing at DOD, we reviewed the efforts of four component agencies—Air Force, Army, Navy, and the Defense Logistics Agency (DLA)—which accounted for 88 percent of DOD spending in fiscal year 2011, as well as departmentwide efforts managed by DOD's Program Acquisition and Strategic Sourcing (PASS) office, which is within DOD's Defense Procurement and Acquisition Policy (DPAP) organization and reports to the Under Secretary of Defense for Acquisition, Technology, and Logistics (AT&L). We also examined governmentwide FSSI efforts managed by the FSSI Program Office and overseen by OFPP. We analyzed selected agencies' policies and interviewed agency and governmentwide strategic sourcing officials to determine the status of current and planned strategic sourcing efforts, with a focus on key challenges and leading practices. To identify the commodities (both products and services) on which the most federal procurement dollars were spent governmentwide and by our selected agencies, we analyzed fiscal year 2011 data from the Federal Procurement Data System—Next Generation (FPDS-NG). We determined that FPDS-NG data were sufficiently reliable for the purposes of our review. Further, we analyzed selected agencies' fiscal year 2011 data on strategic sourcing to identify current or planned strategic sourcing efforts addressing these

commodities. We also analyzed data from selected agencies on managed spending—spending through their strategic sourcing contract vehicles—and savings and other benefits from current strategic sourcing efforts. We did not independently validate agency spending or savings data reported to us by the agencies; however, we did assess information from agency officials about the reliability of the data and resolved some discrepancies. We determined that these data were sufficiently reliable for the purpose of reporting governmentwide spending on products and services, agency spending, and savings reported by agencies. See appendix I for a more in-depth description of our scope and methodology.

We conducted this performance audit from August 2011 to September 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

We have previously reported that because procurement at federal departments and agencies is generally decentralized, the federal government is not fully leveraging its aggregate buying power to obtain the most advantageous terms and conditions for its procurements.³ Agencies act more like many unrelated medium-sized businesses and often rely on hundreds of separate contracts for many commonly used items, with prices that vary widely.

In the private sector, however, we have previously reported that an approach called strategic sourcing has been used since the 1980s to reduce procurement costs at companies with large supplier bases and high procurement costs.⁴ Leading companies we reviewed found they could save billions of dollars and improve the quality of the products and services received by using strategic sourcing. The companies did not follow the exact same approach as they differed in the manner and degree to which they employed specific practices. However, in 2004, we identified four broad principles that were critical to successfully carrying

³GAO-11-318SP.

⁴GAO-11-318SP.

out the companies' strategic approach.⁵ See figure 1 for the principles and practices.

Figure 1: Broad Principles and Practices of Leading Companies' Strategic Approach

Commitment...*Secure up-front commitment from top leaders*

- Recognize and communicate the urgency to change procurement spending practices
- Provide clear and strong executive leadership, including goals and targets

Knowledge...*Obtain improved knowledge on procurement spending*

- Develop information system—i.e., a spend analysis system—to identify how much is being spent with which supplier for what goods or services
- Analyze the data to identify opportunities to reduce costs, improve service levels, and provide better management of suppliers

Change...*Create supporting structure, processes, and roles*

- Create or identify organizations responsible for coordinating or managing purchases
- Establish proactive business relationships among end users, purchasing units, and other stakeholders
- Implement more integrated team-based sourcing processes
- Create commodity/service experts

Support...*Enable success through sustained leadership, communication, and metrics*

- Obtain sustained support from senior leadership to facilitate change
- Establish clear lines of communication among all affected parties
- Demonstrate value and credibility of new processes through the use of metrics

Source: GAO.

We reported that the support and commitment of senior management was viewed as essential to facilitating the companies' efforts to reengineer their approaches to acquisition. Once top leaders were committed to taking a strategic approach, the companies took a hard look at how much they were spending and with which vendors. By arming themselves with this knowledge, the companies could identify opportunities to leverage

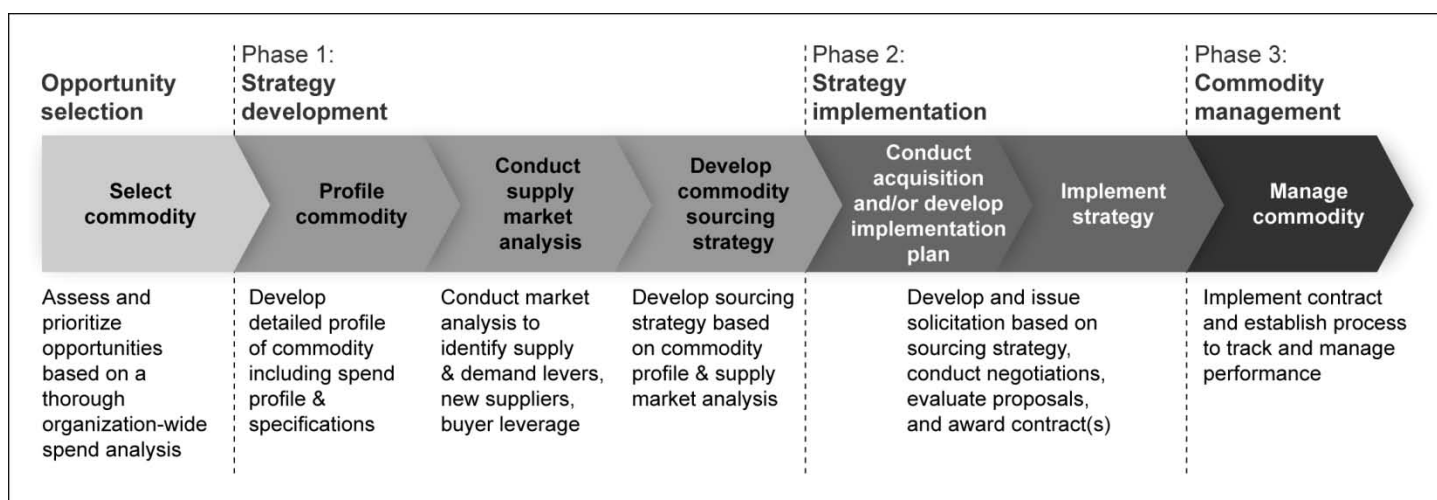
⁵[GAO-04-870](#).

their buying power, reduce costs, and better manage their suppliers. Companies also instituted a series of structural, procedural, and role changes aimed at moving away from a fragmented acquisition process to a more efficient and effective enterprisewide process. Recent work by GAO and others has confirmed that these practices are still critical. For example, a recent survey of leading commercial firms found that senior leadership support remains key to ensuring that companies follow the strategic sourcing process and take ownership of savings goals. Companies we spoke with recently confirmed that knowledge of spending and of the relevant markets continues to be very important, and that a centralized procurement approach remains critical to their ability to ensure knowledge sharing and consistent procurement tactics.

A strategic sourcing effort begins with an opportunity assessment—an analysis of spending and the identification of products and services for which strategic sourcing should be implemented. Spend analysis provides knowledge about how much is being spent for which products and services, who the buyers are, who the suppliers are, and where the opportunities are for leveraged buying and other tactics to save money and improve performance. Data on spending are analyzed on a continual basis to support decisions on strategic sourcing and procurement management in areas such as cost cutting, streamlining operations, and reducing the number of suppliers. Based on this analysis, organizations evaluate and prioritize commodities to create a list of top products or services to target for strategic sourcing. This list typically includes the products or services on which most of the organization's spending is focused. In addition to spending, criteria such as potential savings and relative ease of implementation are considered.

Once a commodity—a product or service—is selected for strategic sourcing, a standardized process is followed to develop, implement, and manage the sourcing strategy for that product or service. See figure 2 for key steps in the strategic sourcing process.

Figure 2: Overview of the Strategic Sourcing Process



Source: GSA.

Strategic sourcing can encompass a range of tactics for acquiring products and services more effectively and efficiently. In addition to leveraged buying, strategic sourcing tactics include managing demand by changing behavior, achieving efficiencies through standardization of the acquisition process, and managing supplier relationships. Private companies reported measuring the success of their strategic sourcing programs in various ways. For example, companies reported looking for reductions in the total cost of ownership and other forms of savings.

Recognizing the benefits of strategic sourcing, OMB issued a memorandum in 2005 that implemented strategic sourcing practices.⁶ This memorandum defined strategic sourcing as the “collaborative and structured process of critically analyzing an organization’s spending and using this information to make business decisions about acquiring commodities and services more effectively and efficiently.” According to the memo, the process helps agencies optimize performance, minimize price, increase achievement of socio-economic acquisition goals, evaluate total life cycle management costs, improve vendor access to business opportunities, and otherwise increase the value of each dollar

⁶Office of Management and Budget, *Memorandum for Chief Acquisition Officers, Chief Financial Officers, and Chief Information Officers on Implementing Strategic Sourcing* (Washington, D.C.: 2005).

spent. Agencies were directed to develop and implement strategic sourcing efforts based on the results of spend analyses and identify at least three commodities that could be purchased more effectively and efficiently through strategic sourcing.

In addition to individual agency efforts, a governmentwide strategic sourcing program—known as the FSSI—was established in 2005, as a direct result of the OMB memo. FSSI was created to address governmentwide opportunities to strategically source commonly purchased products and services and eliminate duplication of efforts across agencies. OFPP—the office within OMB assigned to oversee the FSSI program—is ultimately responsible for providing oversight and guidance as well as ensuring the overall effectiveness of FSSI. The FSSI mission is to encourage agencies to aggregate requirements, streamline processes and coordinate purchases of like products and services to leverage spending to the maximum extent possible. Federal strategic sourcing contract vehicles can be based on the existing multiple award schedules—contracts for similar or comparable goods and services, established with more than one supplier, at varying prices—which are available for use governmentwide and are managed by GSA and VA. However, not all acquisitions using these schedules are considered strategic sourcing; rather the FSSI program has identified specific initiatives which follow the structured strategic sourcing process to be included as FSSIs.

Most Selected Agencies Leveraged Only a Fraction of Their Buying Power and Achieved Limited Savings

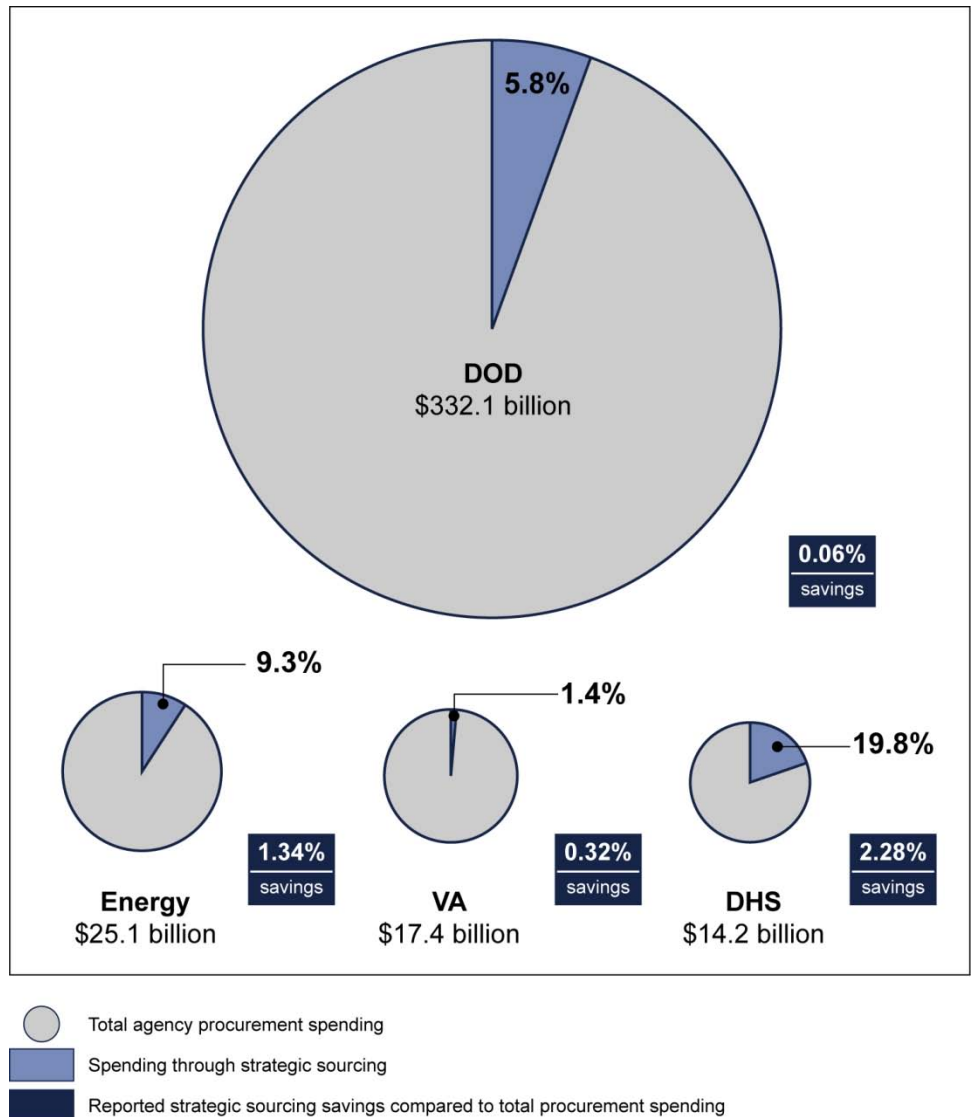
The four agencies we reviewed—DOD, DHS, Energy, and VA—together accounted for 80 percent of the total \$537 billion federal procurement spending in fiscal year 2011, but reported managing less than 5 percent, or \$25.8 billion, through agencywide strategic sourcing contracts. From these efforts, the four agencies reported achieving a combined savings of \$1.8 billion, or less than one-half of one percent of total federal procurement spending. While strategic sourcing may not be suitable for all procurement spending, this percentage of managed spending and savings is very low compared to leading companies which generally strategically manage about 90 percent of their procurement spending and achieve savings of 10 to 20 percent of total procurements annually. According to DOD officials, DOD procurement spending and savings through strategic sourcing contracts in fiscal year 2011 may be underreported, as DOD currently tracks departmentwide initiatives on an ad hoc basis. When strategic sourcing contracts were used, selected agencies generally reported savings ranging from 5 percent to over 20 percent of spending through strategically sourced contracts. Further, most

of the four agencies' current and planned strategic sourcing efforts do not address their highest spending areas, the majority of which exceed \$1 billion and most of which are services. As a result, opportunities exist for agencies to realize significant savings by applying strategic sourcing in these areas.

**Selected Agencies
Reported Managing a
Fraction of Their
Procurement Spending
through Strategic Sourcing**

OMB directed agencies to implement strategic sourcing practices in 2005, but taken together, the agencies we reviewed have leveraged only a fraction of what could potentially be managed and saved through strategic sourcing. DOD, DHS, Energy, and VA accounted for 80 percent of the total federal procurement spending for fiscal year 2011, but reported managing less than 5 percent, or \$25.8 billion, through strategic sourcing efforts, and achieving a combined savings of \$1.8 billion. The four agencies varied widely in the level of spending managed through strategic sourcing. For example, in fiscal year 2011, of the agencies we reviewed, DHS reported the highest percentage of its total procurement spending, nearly 20 percent, being managed through strategic sourcing contracts. By contrast, VA reported the lowest at 1.4 percent. Figure 3 compares spending and savings through strategic sourcing at the four agencies.

Figure 3: Total Procurement Spending, Spending through Strategic Sourcing, and Total Savings Reported by Selected Agencies, Fiscal Year 2011



Source: GAO analysis of FPDS and agency data.

Note: Overall spending for DOD in fiscal year 2011 was \$375 billion. DOD procurement spending total as shown is based on Army, Navy, Air Force, and DLA spending only, which together accounted for 88 percent of DOD total spending.

According to some agency officials, not all of their procurement spending may be addressable through strategic sourcing. For example, DHS

considers some spending related to natural disasters such as hurricanes and earthquakes to be unaddressable through strategic sourcing. In another instance, Energy officials stated that they consider less than a third of Energy's total procurement spending to be addressable through strategic sourcing. However, while some spending may not be suitable for strategic sourcing, the percentage of spending selected agencies report managing through strategic sourcing is small compared to the amount leading companies are managing strategically. Industry groups recently reported that leading companies they surveyed strategically manage approximately 90 percent of their procurement spending centrally. Moreover, leading companies we spoke with in 2012 reported that setting goals and using metrics to measure managed spending is important. By contrast, only a few of our selected agencies have set goals for the amount of spending managed through strategic sourcing (see table 1).

Table 1: Selected Agencies' Goals for Spending Managed through Strategic Sourcing

Agency	Goal
Department of Defense	None specified
Air Force	50 percent of Installation Operations and Maintenance spending (approximately \$12 billion annually) by 2015
Army	None specified
Navy	None specified
Defense Logistics Agency	None specified
Department of Homeland Security	None specified ^a
Department of Veterans Affairs	None specified
Department of Energy	2.5 percent of the anticipated \$10 billion of contractor spending for fiscal year 2012

Source: Selected agencies.

^aIn fiscal year 2011, DHS set a utilization goal of 35 percent, which resulted in achieving 20 percent of procurement spending through strategic sourcing contracts.

Managed Spending and Savings Varied Greatly within DOD

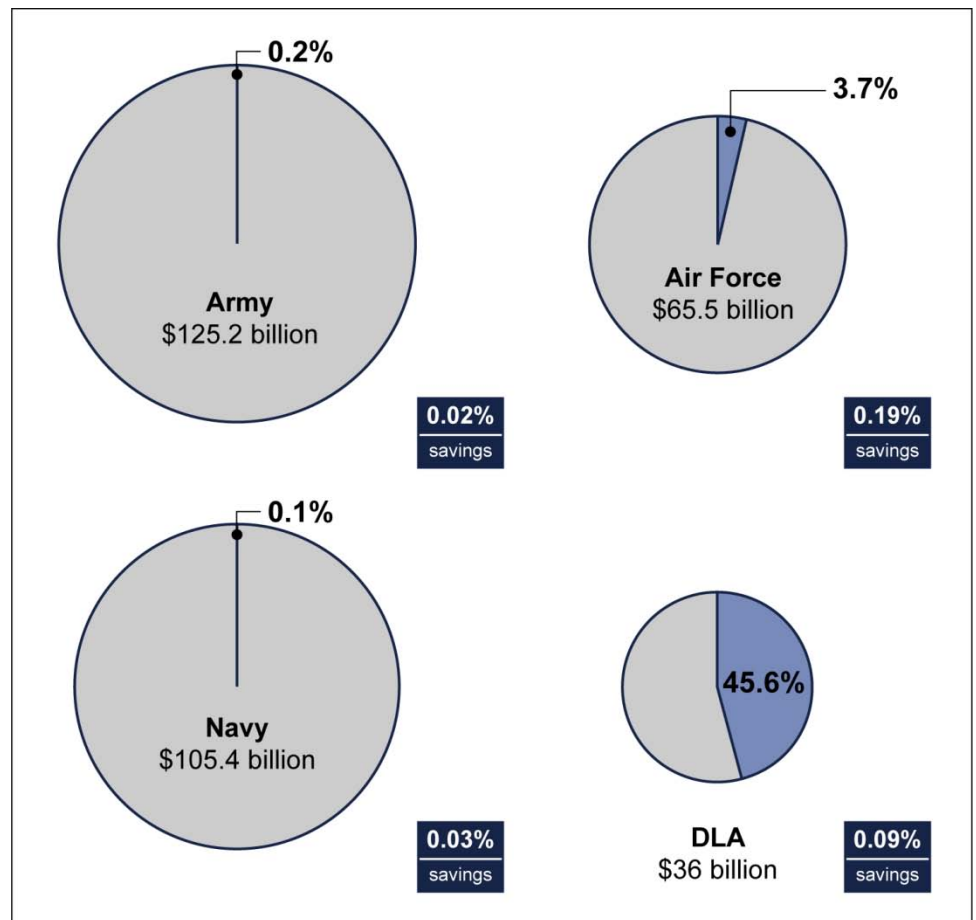
At DOD—the federal government’s largest procurer of products and services—the Army, Navy, Air Force, and DLA together reported spending almost 6 percent, or \$19 billion, through strategic sourcing contracts. In addition, the Defense Program Acquisition and Strategic Sourcing (PASS) office, which coordinates strategic sourcing efforts across the department, was unable to provide us with a comprehensive list of departmentwide strategic sourcing initiatives, and indicated that there are likely more strategic sourcing initiatives that are not accounted

for because departmentwide initiatives are reported on an ad hoc basis.⁷ However, they provided information on a limited number of departmentwide strategic sourcing initiatives that together represented more than \$1 billion of spending and over \$900 million in savings in fiscal year 2011.

The proportion of procurement spending being managed through strategic sourcing varied widely among the military departments and DLA (see fig. 4). For example, the Army spent more than \$125 billion on products and services in fiscal year 2011, but reported that only \$280 million, or less than a quarter of one percent of procurement spending, was strategically sourced. In contrast, DLA spent \$36 billion on goods and services in fiscal year 2011, and reported that 46 percent or \$16 billion was strategically sourced. According to DOD officials, it is to be expected that a high percentage of DLA's spending is suitable for strategic sourcing because DLA's unique mission is to supply high volume products that are bought across DOD, such as uniforms and food. Although DLA's spending represents only 10 percent of DOD's total procurement spending, DLA's strategic sourcing efforts demonstrate that when DOD approaches procurement from a departmentwide level, it can achieve successful outcomes. In addition, PASS officials reported savings of \$889 million in fiscal year 2011 from one initiative that leveraged departmentwide spending on enterprise software. Specifically, the initiative consolidates DOD commercial software, information technology hardware, and services requirements to obtain lower prices from information technology providers. Figure 4 provides reported fiscal year 2011 procurement spending, and strategic sourcing information for the military departments and DLA.

⁷PASS officials told us that for fiscal years 2005 through 2008, they collected information on departmentwide and component initiatives in the course of preparing annual reports on strategic sourcing to OMB; however they do not currently have a process in place to identify and track DOD-wide initiatives.

Figure 4: Total Procurement Spending, Spending Through Strategic Sourcing, and Total Savings Reported by DOD Components, Fiscal Year 2011



Source: GAO analysis of FPDS and agency data.

Savings Reported from Limited Strategic Sourcing Efforts Indicate Potential for Generating Additional Savings

Selected agencies' reported savings added up to \$1.8 billion in fiscal year 2011—less than one-half of one percent of total federal procurement spending. We previously reported that some companies achieved reported savings of 10 percent to 20 percent of their total procurement costs through the use of a strategic approach to buying products and services.⁸ DHS reported fiscal year 2011 savings of \$324 million. At DOD, the military departments and DLA reported a total of \$213 million in savings for fiscal year 2011. The PASS office is just starting to collect some data on departmentwide strategic sourcing savings and could not definitively report savings through departmentwide strategic sourcing in fiscal year 2011. However, based on information provided, DOD achieved \$900 million in savings from agencywide efforts. We have previously reported that DOD has not fully collected and assessed cost savings and other information from strategic sourcing initiatives.⁹ Energy and VA officials reported \$335 million and \$56 million in savings respectively for their strategic sourcing efforts in fiscal year 2011.

When strategic sourcing contracts were used, agencies generally reported rates of savings ranging from 5 percent to over 20 percent of spending through those contracts. For example, the Navy reported spending \$145 million and achieving savings of \$30 million through strategic sourcing in fiscal year 2011; these reported savings are almost 21 percent of the spending through strategic sourcing vehicles. However, spending through strategic sourcing was a tiny fraction of the Navy's total procurement spending (0.1 percent). If the Navy were to direct even 10 percent of its total procurement spending of \$105 billion through strategic sourcing vehicles, and achieved savings equivalent to 21 percent of the spending directed through strategic sourcing vehicles, it would save over \$2 billion. In another example, the Air Force reported spending \$2.4 billion and achieving savings of \$126 million through strategic sourcing in fiscal year 2011. These reported savings are equal to 5 percent of the spending through strategic sourcing. If the Air Force were to strategically source even 10 percent of its total procurement spending of \$65 billion, and achieved savings equivalent to 5 percent of the spending through strategic sourcing vehicles, it would save \$339 million.

⁸[GAO-03-661](#).

⁹GAO, *Follow-up on 2011 Report: Status of Actions Taken to Reduce Duplication, Overlap, and Fragmentation, Save Tax Dollars, and Enhance Revenue*, [GAO-12-453SP](#) (Washington, D.C.; Feb. 28, 2012).

Strategic Sourcing Efforts at Most Agencies We Reviewed Are Not Addressing the Highest Spending Categories Offering the Most Potential for Savings

DOD training materials highlight the importance of prioritizing spending categories by looking at total spending dollars, among other criteria; specifying that a priority list can be developed by identifying those top spend categories that comprise 80 percent of the organization's total procurement spending. While some agencies such as DHS have implemented initiatives that address top spend categories, current and planned initiatives at the other agencies we reviewed do not address the categories that represent their highest spending, the majority of which exceed \$1 billion and most of which are for services rather than products. Consequently, agencies are leaving large segments of spending unmanaged, particularly in the area of services. We found that as the amount of spending managed through strategic sourcing at selected agencies increased, reported savings generally increased.

In fiscal year 2011, more than half of the procurement spending at the four agencies we reviewed was used to acquire services. However, we found that strategic sourcing efforts addressed products significantly more often than services. Officials reported that they have been reluctant to strategically source services for a variety of reasons, such as difficulty in standardizing requirements or a decision to focus on less complex commodities that can demonstrate success. Leading companies we spoke with have focused their efforts on services in the past 5 to 7 years because of the growth in spending in that area, and have achieved significant savings. For example, officials at one leading company told us that they developed standardized regional labor rates to allow strategic sourcing of services. Strategic sourcing leading practices at private companies suggest that it is critical to analyze all procurement spending with equal rigor and with no categories that are off limits. In addition, achieving savings requires a departure from the status quo. An industry group recently surveyed companies and reported that companies have successfully strategically sourced categories of services spending that have been off limits or controversial for most procurement organizations, such as information technology, professional services, technical services, and facilities management.¹⁰ Selected agencies are procuring many of the same types of services, such as professional services, and are missing opportunities to coordinate efforts. For example, DOD conducted a spend analysis in 2010 that identified knowledge-based services such

¹⁰Resources Global Professionals Supply Chain Management briefing presented at the Institute of Supply Management conference, May 2012.

as engineering management services and logistics management services as the largest portfolio of spending being procured by all the DOD components.

Of the four agencies we reviewed, only DHS reported addressing the majority of its top 10 spending categories of products and services. In contrast, VA reported implemented initiatives in 3 of its top 10 spending categories. Energy reported departmentwide initiatives for one of its top 10 categories of spending – operation of Government-Owned Contractor-Operated Research and Development Facilities, which comprises a large percentage of the agency's total procurement spending – but officials noted that some of their components have strategic sourcing efforts in those top 10 spending categories where virtually all of the spending is concentrated at one component. Because of this concentration, Energy officials did not believe greater efficiencies could be achieved by sourcing those commodities at a departmentwide level. At DOD, PASS officials could not provide a comprehensive list of departmentwide initiatives and therefore, we could not fully assess their efforts to address the department's highest spending categories through departmentwide strategic sourcing efforts.

The DOD components varied in the extent to which their efforts address their top spending categories. Of the components we reviewed, only DLA reported initiatives addressing the majority of their highest spending categories (see fig. 5). According to Navy officials, they choose products and services for strategic sourcing by examining their top spending products and services and eliminating those that they do not consider to be good candidates for strategic sourcing. Through this analysis, Navy officials identified engineering and technical services as a good candidate for strategic sourcing and stated they planned to create a commodity team in the fourth quarter of fiscal year 2012 to develop an initiative in this area. In addition, the Air Force reported completing multiple spend analyses to identify and establish commodity councils, and also to prioritize strategic sourcing initiatives within these commodity councils. Air Force officials reported that strategic sourcing opportunities were prioritized based on a value/complexity trade-off.

Figure 5: DOD Components' Initiatives Targeting Their Top 10 Products and Services

Air Force		Initiatives		Army		Initiatives	
1. Aircraft, fixed wing				1. Logistics support services			
2. Space vehicles				2. Engineering and technical services			
3. Maintenance, repair and rebuilding of equipment: aircraft and airframe structural components				3. Aircraft, rotary wing			
4. Other research and development: applied research and exploratory development				4. Construction of structures and facilities: miscellaneous buildings			
5. Systems engineering services				5. Combat, assault, and tactical vehicles, wheeled			
6. Miscellaneous aircraft accessories and components				6. Construction of structures and facilities: other non-building facilities			
7. Space research and development: applied research and exploratory development				7. Other professional services			
8. Engineering and technical services				8. Ground effect vehicles			
9. Other professional services		●	○	9. Trucks and truck tractors, wheeled			
10. Maintenance, repair and rebuilding of equipment: miscellaneous aircraft accessories and components				10. Guided missiles			

DLA		Initiatives		Navy		Initiatives	
1. Liquid propellants and fuels, petroleum base				1. Aircraft, fixed wing			
2. Fuel oils				2. Destroyers			
3. Dairy foods and eggs		●		3. Engineering and technical services		○	
4. Drugs and biologicals		●		4. Submarines			
5. Gas turbines and jet engines, aircraft, prime moving; and components		●		5. Aircraft, rotary wing			
6. Airframe structural components		●		6. Defense aircraft: operational systems development			
7. Marine lifesaving and diving equipment		●		7. Combat, assault, and tactical vehicles, tracked			
8. Miscellaneous aircraft accessories and components		●		8. Airframe structural components			
9. Medical and surgical instruments, equipment, and supplies		●		9. Other automatic data processing and telecommunications services		●	
10. Clothing, special purpose		●		10. Gas turbines and jet engines, aircraft, prime moving; and components			

●

 Implemented

○

 Planned

Source: GAO analysis of FPDS-NG and agency data.

Of the top spending categories that DOD components reported targeting through implemented strategic sourcing initiatives, only two are services. However, leading companies and DHS have successfully tackled some high-spend and complex services that are comparable to DOD's high spend services. For example, DHS has implemented a strategic sourcing initiative for engineering and technical services, which is also in the top 10

spending categories for the Army, Air Force and Navy. DOD acknowledges the need to better manage services spending. A DOD instruction is in place that requires each service acquisition executive in the military departments to collaborate with other senior officials to determine key categories of services that can be strategically sourced, and to dedicate full-time commodity managers to coordinate procurement of these services.¹¹ These officials are also responsible for conducting periodic spend analyses of their procurement data. DOD officials told us that the appointment of a senior manager for the acquisition of services at each of the military departments and defense agencies is in progress, but that it will take some time to fully achieve this change.

Agency officials stated that not all categories of spending are good candidates for strategic sourcing. However, industry sources, government guidance, and our prior work have identified a range of strategic sourcing tactics that are appropriate for various types of government products and services. For example, some military officials have cited weapon systems as one category that they do not consider to be good candidates for strategic sourcing. While weapon systems are highly specialized items that have a long development cycle, we have identified where weapon systems acquisition could benefit from some strategic sourcing practices, such as supplier relationship management.¹² In a 2005 memo on strategic sourcing, DOD stated that enhancing relationships with suppliers minimizes costs, as DLA has done through long-term contracts. Further, DOD cited the need for improving long-term strategic relationships with suppliers in its 2010 Better Buying Power memo, and directed components to participate in an agencywide pilot to develop preferred supplier relationships.¹³

In addition, the Better Buying Power memo acknowledged a need for a cohesive and integrated strategy for acquiring services, many of which

¹¹DOD Instruction 5000.02, issued in 2008, establishes a simplified and flexible management framework for translating capability needs and technology opportunities based on approved capability needs into stable, affordable, and well-managed acquisition programs that include weapon systems, services, and automated information systems.

¹²GAO, *Best Practices: DOD Can Help Suppliers Contribute More to Weapon Systems Programs*, [GAO/NSIAD-98-87](#) (Washington, D.C.: Mar. 17, 1998).

¹³On September 14, 2010, the Undersecretary for Acquisition, Technology, and Logistics issued a memo called Better Buying Power: Guidance for Obtaining Greater Efficiency and Productivity in Defense Spending.

are among the highest spending categories for DOD. The memo cited the use of more than 100,000 contract vehicles held by more than 32,200 contractors and also stated that contract support services spending at DOD represented more than 50 percent of its total contract spending in 2009. However, the memo was not clear how strategic sourcing would be incorporated into their ongoing efforts in this area. Similarly, the Defense Business Board issued a report in January 2011 recommending that DOD target high value areas for cross-military department coordination.¹⁴ The report noted that strategic sourcing savings of even one percent at the department would equate to billions of dollars.

Selected Agencies’ Strategic Sourcing Efforts Varied Widely

Initiatives Address a Range of Products and Services

Some of the four agencies have implemented many initiatives covering a wide range of products or services, while others report only a few initiatives that address a limited number of products or services. As of fiscal year 2011, the four agencies we reviewed reported initiatives that have been implemented or planned targeting nearly 750 products and services—ranging from ammunition to architecture and engineering services to seating. In addition to the initiatives that have already been implemented at the four agencies, officials reported a total of 85 efforts planned for fiscal years 2012 through 2016. Many initiatives include multiple products or services. For example, DHS reported, for fiscal year 2011, 42 implemented departmentwide initiatives that covered approximately 270 products and services, ranging from software to professional and program management support services. By contrast, VA reported 4 initiatives covering flags, hearing aids, wireless devices, and affiliate negotiation teams. At the Department of Energy, the majority of spending through strategic sourcing is led by the management and operating contractors who operate and maintain most of their government-owned facilities, such as national laboratories. Energy officials told us that labs managed by the National Nuclear Security Administration require their contractors to collaborate to produce contracting vehicles for common products and services used across the

¹⁴Defense Business Board Report to the Secretary of Defense on Strategic Sourcing, January 2011.

Agencies' Management of Strategic Sourcing Efforts

program. However, national labs managed by the Office of Science do not. The Office of Environmental Management began implementing an initiative modeled on National Nuclear Security Administration's approach in 2012.

At DOD, PASS officials were unable to definitively report how many initiatives were ongoing as of fiscal year 2011. However, they did provide information on a limited number of ongoing departmentwide initiatives. Within DOD, the military departments and DLA varied in the number of efforts that they have implemented and the types of products and services that have been addressed. For example, the Air Force reported 17 implemented initiatives whereas the Army reported 8 and the Navy reported 7 implemented initiatives. These initiatives include products, such as taxiway lighting and maritime coatings, and services, such as clinical support services and integrated logistics support services.

We found that agencies with more mature strategic sourcing programs—those with more implemented initiatives—managed more spending through strategic sourcing than those with less mature efforts. For example, DHS had the most initiatives and had the highest percentage of spending through strategic sourcing of the four selected agencies we reviewed. Conversely, VA officials reported the fewest initiatives and the lowest amount of spending managed through strategic sourcing of the agencies we reviewed. To support strategic sourcing efforts, DHS stood up a strategic sourcing office at its headquarters to centralize strategic sourcing efforts when the department was created in 2003, and its strategic sourcing program has been operating under an implemented management directive since 2004. We reported in 2004 that VA had success with a few initiatives.¹⁵ However, since that time they do not appear to have expanded their use of strategic sourcing. According to VA officials, efforts were stymied by a lack of reliable data. However, they are in the process of ramping up to add resources and increase their strategic sourcing efforts.

Additionally, Energy's major programs—National Nuclear Security Administration, Office of Science, and Office of Environmental Management—have ongoing strategic sourcing efforts and require some contractors operating their facilities to strategically source; however,

¹⁵[GAO-04-870](#).

Energy is still working to centralize its management of strategic sourcing initiatives and create an agencywide strategic sourcing program. In 2010, the Deputy Secretary of Energy cited further opportunities to leverage the department's buying power through a more centralized and less fragmented approach, but according to Energy officials, steps have only recently been taken to take advantage of those opportunities. For example, the Office of Environmental Management created a partnership in January 2012 with the National Nuclear Security Administration's Supply Chain Management Center. Under this partnership, the Environmental Management contractors have begun working with the Supply Chain Management Center to create a cooperative strategic sourcing solution that achieves efficiencies and economies of scale, and increases productivity and cost savings. In 2012, the Office of Science conducted a review of the National Nuclear Security Administration's Supply Chain Management Center process and concluded that it does not make financial or practical sense for their labs to leverage existing efforts or establish a similar organization. They fulfill this function using their previously established Integrated Contractor Purchasing Team. We recently recommended that the Secretary of Energy assess whether the National Nuclear Security Administration and the Office of Science are taking the necessary steps to address challenges limiting implementation of cost savings efforts.¹⁶ They agreed with our recommendation and are taking steps to address it.

Efforts across DOD components varied but in general are not mature. Army officials reported that the Army is currently aligning and allocating strategic sourcing responsibilities in partnership with the Army's Senior Services Manager. In 2011, the Assistant Secretary of the Army issued a memo establishing a strategic sourcing board structure and program. The Air Force has been incorporating some aspects of strategic sourcing into its procurement practices for over a decade and its efforts are the most mature.

The Office of the Secretary of Defense (OSD) relies on each military department to develop its own strategic sourcing efforts. The Defense Business Board reported in 2011 that DOD had not incorporated agencywide strategic sourcing into its operations and business practices.

¹⁶GAO, *Department of Energy: Additional Opportunities Exist to Streamline Support Functions at NNSA and Office of Science Sites*, [GAO-12-255](#) (Washington D.C.: Jan. 31, 2012).

Rather, PASS officials told us that they conduct a detailed and comprehensive spending analysis, which they provide to the military departments so that they may determine which products and services they should address. Using this detailed spend analysis to select commodities that could be strategically sourced across DOD is not their primary goal; instead, PASS officials told us that they used it to identify and develop goals set forth in the Better Buying Power memo, which addresses productivity and efficiency initiatives such as increasing competition and reducing the use of high-risk contract vehicles. DOD guidance has not made clear how efforts related to the Better Buying Power memo link specifically to strategic sourcing initiatives. Military service officials told us that they would welcome guidance on strategic sourcing efforts from the PASS office, which is the organization responsible for championing strategic sourcing policy and initiatives for the department. The PASS office is currently updating its departmentwide strategic sourcing concept of operations, and is revising additional guidance which will include a process for regular review of DOD component and departmentwide proposed strategic sourcing initiatives. PASS officials stated that additional direction from DPAP or AT&L may be needed.

Selected Agencies and the FSSI Program Continue to Face Challenges in Implementing Strategic Sourcing

Selected agencies and the FSSI program, which manages governmentwide strategic sourcing initiatives, continue to face common challenges which prevent them from fully adopting a strategic sourcing approach to procurement. A lack of leadership investment has prevented several agencies from transforming their procurement organizations to allow for enterprisewide strategic sourcing, as leading companies have done. For example, leaders at DOD and the Army have not devoted resources to set up the necessary organizational structures for strategic sourcing. In addition, agencies are still challenged to obtain and analyze reliable and detailed agencywide spending data, which hinders their ability to identify and study the strategic sourcing opportunities offering the most potential benefits. Finally, the FSSI program and selected agencies face challenges in communicating information for new and ongoing initiatives as well as establishing and meeting utilization goals to measure the effectiveness of these efforts and to realize cost savings. Where agencies have overcome some of these challenges, strategic sourcing results have improved. For example, DHS has established a centralized strategic sourcing office, identified opportunities in high spend areas despite data deficiencies, and taken steps to manage and monitor ongoing efforts. DHS is currently managing nearly 20 percent of its total procurement spending through strategic sourcing contracts and in fiscal

year 2011 met its goal of 35 percent of spending on relevant products and services directed through the strategic sourcing contracts.

**Except for DHS,
Leadership Commitment
Has Been Lacking, but
Improvements Are Under
Way**

Leaders at DOD and Energy have not committed to creating a procurement organization that views spending and makes strategic sourcing decisions at an agencywide level. DHS has created a centralized strategic sourcing organization and VA has initiated some reorganization in 2012, but it is too early to tell whether recent realignment efforts within VA will be successful. Each of these four agencies must overcome challenges posed by insufficient leadership support, including failure to dedicate resources and lack of management action to address disincentives to strategic sourcing. However, all four agencies reported they have begun to adopt some practices aimed at addressing these challenges.

Dedication of Resources

At a few agencies, leadership has not devoted sufficient resources to allow for strategic sourcing to be conducted at a departmentwide level. Strategic sourcing programs can be structured in various ways that require varying levels of resources. For example, DHS established a strategic sourcing program office, located in the Office of the Chief Procurement Officer, which includes DHS's Director of Strategic Sourcing and nine additional staff members. This office coordinates with the components to identify opportunities and develop agencywide contracts that apply strategic sourcing principles. VA reported that in response to a proposal from Veterans Health Administration (VHA) personnel, VA leadership has recently committed to support the VHA in hiring approximately 150 full time personnel who will establish commodity management teams to identify departmentwide strategic sourcing opportunities and develop improved requirements packages, among other duties. Similarly, the Air Force reported that roughly 125 employees within its Enterprise Sourcing Group are involved in cross-functional strategic sourcing that leverages installation spending across 71 sites.

The structure of an agency's strategic sourcing program will determine the amount of dedicated resources that are needed; however, in two cases we found large agencies with only one or two full time employees who were expected to coordinate strategic sourcing across the entire organization. The Army, which managed more annual procurement spending than any other government agency in fiscal year 2011, currently does not have a formal strategic sourcing program office. The strategic sourcing function presently lies within the Policy and Oversight Directorate under the Deputy Assistant Secretary of the Army for

Procurement, which has committed only one staff person at a quarter time to managing its strategic sourcing. Moreover, at the OSD level, DOD has allocated one Deputy Director and one full-time staff member to its PASS office. The failure of agency leaders to devote resources to strategic sourcing has been a recurring issue. For example, in 2009, the FSSI program reported that many strategic sourcing staff cited resource constraints as the main barrier to implementation of strategic sourcing in their organizations. During our review we observed that agencies that have committed more resources to managing departmentwide strategic sourcing efforts were better able to maintain data on their agencies' current strategic sourcing initiatives. This is a necessary step for coordinating and managing purchases agencywide—identified in our prior work as critical to taking a strategic approach to procurement. For example, DHS maintains a published list of available departmentwide strategic sourcing vehicles, while Army officials told us it was difficult for them to supply information on all initiatives because strategic sourcing data—even on Army-wide efforts—are not kept centrally and would require a data call.

Management Action to Counteract Disincentives

Agency officials mentioned several disincentives that can discourage procurement and program officials from proactively participating in strategic sourcing, and at many agencies, these disincentives have not been fully addressed by leadership. Key disincentives identified by agency officials include the following:

- A perception that reporting savings due to strategic sourcing could lead to program budgets being cut in subsequent years,
- Difficulty identifying existing strategic sourcing contracts that are available for use as there is no centralized source for this information,
- A perception that strategically sourced contract vehicles may limit the ability to customize requirements,
- A desire on the part of agency officials to maintain control of their contracting,
- Program officials' and contracting officers' relationships with existing vendors, and
- The opportunity to get lower prices by going outside of strategically sourced contracts.

For example, a key disincentive to implementing efforts and tracking and reporting savings is a perception that program budgets may be cut as a result of producing savings. Agency officials stated that a reluctance to track and report savings for fear of budget reductions contributes to underreporting of savings. Military officials reported a perception that any money saved will be taken from the next year's budget. Navy officials

stated that several of their commands have expressed concerns that tracking and reporting savings could trigger another round of budget reductions and that the issue is frequently raised during their meetings with Navy senior management. DOD leadership has not yet addressed this perception for strategic sourcing efforts.

Leaders at some agencies have proactively introduced practices that address these disincentives to strategically source. For example, DHS and VA reported increasing personal incentives for key managers by adding strategic sourcing performance measures to certain executives' performance evaluations. In addition, several agencies including DOD, DHS, and VA have instituted policies making use of some strategic sourcing contracts mandatory or mandatory "with exception," although the extent to which these policies have increased use of strategic sourcing vehicles is not yet clear. Some agencies have made use of automated systems to direct spending through strategic sourcing contracts. For example, FSSI issued a blanket purchase agreement through its office supplies initiative which included provisions requiring FSSI prices to be automatically applied to purchases made with government purchase cards. VA reported that its utilization rate for the office supplies FSSI contracts increased from 12 percent to 90 percent after these measures took effect. Officials from a number of agencies reported that they expected shrinking budgets will prompt leadership to provide additional requirements or incentives to strategically source. In fact, VA and Navy officials reported renewed attention to strategic sourcing as a potential tool to deal with budget cuts.

A Few Agencies Have Conducted Opportunity Analyses Despite a Lack of Reliable Agencywide Spending Data

Obtaining and Analyzing Spending Data

The FSSI program and selected agencies generally cited the Federal Procurement Data System—Next Generation (FPDS-NG)—the federal government's current system for tracking information on contracting actions—as their primary source of data, and noted numerous deficiencies with this data for the purposes of conducting strategic sourcing research. Agencies reported that when additional data sources

Availability of Strategic Sourcing Expertise

are added, incompatible data and separate systems often presented problems. We have previously reported extensively on issues agencies faced in gathering data to form the basis for their spend analysis.¹⁷ However, some agencies have been able to make progress on conducting enterprisewide opportunity analyses despite flaws in the available data. For example, both the FSSI Program Management Office and DHS told us that current data, although imperfect, provide sufficient information for them to begin to identify high spend opportunities. DHS has in fact evaluated the majority of its 10 highest-spend commodities and developed sourcing strategies for seven of those based on its analysis of primarily FPDS-NG data.

Officials at several agencies noted that the lack of trained acquisition personnel made it difficult to conduct an opportunity analysis and develop an informed sourcing strategy. For example, Army officials cited a need for expertise in strategic sourcing and spend analysis data, and OMB officials echoed that a key challenge is the dearth of strategic sourcing expertise in government. VA and Energy also reported this challenge. A few agencies have responded to this challenge by developing training on strategic sourcing for acquisition personnel. For example, the Air Force noted that they instituted training related to strategic sourcing because it is necessary to have people who are very strong analytically to do the front end work for strategic sourcing, and these are the hardest to find. The training course gives acquisition personnel strong analytical skills to perform steps like market evaluation. VA has also begun to develop training to address this challenge.

¹⁷GAO, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, [GAO-11-318SP](#) (Washington, D.C.: Mar. 1, 2011); *Defense Acquisitions: Tailored Approach Needed to Improve Service Acquisition Outcomes*, [GAO-07-20](#) (Washington, D.C.: Nov. 9, 2006); *Homeland Security: Successes and Challenges in DHS's Efforts to Create an Effective Acquisition Organization*, [GAO-05-179](#) (Washington, D.C.: Mar. 29, 2005); *Best Practices: Using Spend Analysis to Help Agencies Take a More Strategic Approach to Procurement*, [GAO-04-870](#), (Washington, D.C.: Sept. 16, 2004); and *Best Practices: Improved Knowledge of DOD Service Contracts Could Reveal Significant Savings*, [GAO-03-661](#) (Washington, D.C.: June 6, 2003).

Agencies Report Challenges in Executing Individual Strategic Sourcing Initiatives

Developing the Sourcing Strategy

Agency officials listed several challenges that they commonly face in developing the sourcing strategy for a product or service. As with the opportunity analysis stage, imperfect data and a lack of expertise also pose challenges to agencies when developing a sourcing strategy. This phase requires study of various types of information; for example, data on the agency's requirements and historical and projected demand for the product or service. Some agencies have found additional information on existing suppliers and contracts to also be important in identifying commodities to target for strategic sourcing. For example, the Air Force also considers data on the number of contracts, the number of purchasing locations, the number of transactions, the number of suppliers, and estimated total cost savings for each potential commodity, among other factors. Several agencies have historically turned to contractors to perform this step; however some have recently decided to increase internal expertise in this area. For example, the FSSI Program Management Office reported hiring two new staff with relevant expertise to help with this process.

A few agencies also reported challenges specifically with meeting requirements unique to government procurements. Government procurements must meet specified socioeconomic goals; for example, agencies are expected to award a certain portion of their contracts to small businesses. Organizations representing small businesses have expressed concern that federal strategic sourcing reduces contracting opportunities for small businesses. However, while acknowledging that reducing the number of vendors providing a product or service means that some vendors will be unable to participate, agency officials reported finding ways to conduct strategic sourcing efforts that allow for maximum feasible small business participation. For example, DHS, VA, and Air Force officials told us they collaborated with small business advocates early in the acquisition planning stage to ensure they conducted market research that would help determine how to maximize small business participation. In addition, Federal Strategic Sourcing Initiatives to date have generally awarded a number of contracts to small businesses. For example, of 15 contracts awarded for an initiative focusing on office supplies, 13 were awarded to small businesses, and these businesses received over 70 percent of office supplies spending through that initiative.

in fiscal year 2011. Another initiative targeting print management services awarded 5 of 11 contracts to small businesses. Several agency small business utilization officials with whom we spoke were generally satisfied with FSSI and agency efforts to involve small businesses in strategic sourcing.

Officials at all of our four selected agencies discussed challenges in getting buy-in among those who would be using the strategic sourcing contracts to purchase products or services. Buyers can face a number of disincentives to using strategic sourcing vehicles, as outlined above. In addition to creating structures that provide incentives for participation in strategic sourcing, several agencies incorporate practices into individual strategic sourcing efforts to increase stakeholder buy-in. OMB, DHS, and Air Force officials reported that one such practice is involving stakeholders early in the process. For example, Air Force officials said that in order for strategic sourcing to be successful, the cross-functional commodity team must include the organization that is funding the acquisition. DHS officials added that in order to have support with all levels of personnel involved, it is important to have the end users in the room when making procurement decisions. Similarly, the program manager for GSA's planned FSSI covering wireless rate plans and devices personally conducted extensive outreach with agencies to understand their technical requirements and encourage customer involvement. In response, agencies have sent representatives from offices of both the Chief Information Officer and the Chief Acquisition Officer to work with the team in developing the acquisition strategy.

Implementing and Managing Strategic Sourcing Efforts

Challenges in Ensuring Utilization

After strategic sourcing contracts are awarded, realizing cost savings and other benefits depends on utilization of these contracts. Agency officials indicated that a key challenge with strategic sourcing is communicating new contracting options. For example, Navy officials expressed that even though they have templates for communication that can be used when rolling out an initiative, it is really people who determine whether the communication will be effective. In addition to putting together a communication plan to alert government purchase card users that use of the office supplies FSSI was now required, Air Force officials conducted random telephone calls to ensure these users knew of the existence of the policy. Air Force officials believed that these communication efforts led to a 50 percent increase in FSSI usage from March to April 2011.

To improve the existing FSSI efforts, GSA applied lessons learned from previous initiatives to increase buy-in and utilization. The first generation of the office supplies initiative did not have a high utilization rate, and officials attributed this, in part, to a failure to publicize the effort. As a result, GSA increased its outreach efforts for the second iteration of the initiative and developed an implementation kit—a pre-packaged communications campaign to help implement the FSSI. The kit included a five-step implementation process, sample communications and policy memos, and reporting templates. In fiscal year 2011, an estimated 13 percent of governmentwide spending on office supplies went through second generation office supplies initiative contracts, up from less than 1 percent of similar spending through first generation contracts in fiscal year 2009.

Using Goals and Metrics to Measure Progress

Failure to set goals and difficulty in measuring the utilization of strategic sourcing contracts also present a critical challenge. A lack of detailed data on spending makes it difficult for agencies to track utilization of existing strategic sourcing contracts. FPDS-NG provides spending data by product service code, but the products and services targeted by most strategic sourcing initiatives are only a subset of these much broader categories. Further, FPDS-NG lacks information on transactions below a certain dollar threshold. Even where agencies have improved their data on spending through strategically sourced contracts—for example, a FSSI blanket purchase agreement requires vendors to provide detailed line item data on spending—they continue to lack data that allows them to reliably identify spending on these products and services that go to contractors outside of strategically sourced contracts. Inability to track this spending makes tracking utilization imprecise, but the FSSI program, VA, and DHS have all begun tracking utilization data—though imperfect—and are using utilization rates as one metric to manage strategic sourcing efforts. VA officials acknowledged that regular monitoring of strategically sourced spending is what creates the incentive to stabilize savings following the initial drop in spending, which is crucial to continued success.

Agencies are equally challenged to produce other metrics—such as spending through strategic sourcing contracts and savings—that can be used to monitor progress. However, agencies will be increasingly called upon to produce metrics as the use of strategic sourcing expands. For example, in 2012 OMB issued a new cross-cutting management improvement goal, which calls for agencies to strategically source at least

two new products or services in both 2013 and 2014 that yield at least 10 percent savings. Agencies will need to measure savings to document their progress toward this goal. However, although recognizing the need for guidance on how agencies are to measure savings, OMB has not yet issued such guidance.

The strategic sourcing savings figures reported to us by agency officials were calculated using a variety of savings methodologies; for example, the difference in the paid price versus the price from ordering the same product or service from GSA schedule contracts. Other examples for calculating savings include totaling GSA management fees avoided because GSA schedules were not used for the procurement, and comparison of the prices paid on the contracts before strategic sourcing and after. Often several methodologies were used even within agencies. We recently reported that Energy's guidance on calculating procurement cost savings gave its maintenance and operations contractors considerable flexibility in choosing the methods for estimating savings, and therefore estimates could vary widely.¹⁸ For example, one laboratory estimated a \$9 million savings from a software purchase in 2010 using its preferred estimation method. By other methods used elsewhere in Energy, however, the site estimated that its savings could have been as high as \$35 million. We recommended that Energy clarify its guidance on estimating cost savings from streamlining efforts.¹⁹ Energy officials agreed with our recommendation and stated they have clarified their guidance on developing savings estimates. In addition, our recent reports highlighted the difficulties that agencies face when calculating acquisition savings. Specifically, we found that agencies reported billions of dollars in overstated and questionable savings in response to OMB's Acquisition Savings Initiative due to differing methods of calculating savings as well as confusion as to what should be included as savings.²⁰ We also found that when calculating savings from various efforts including strategic

¹⁸[GAO-12-255](#).

¹⁹[GAO-12-255](#).

²⁰GAO, *Federal Contracting: OMB's Acquisition Savings Initiative Had Results, but Improvements Needed*, [GAO-12-57](#) (Washington, D.C.: Nov. 15, 2011).

sourcing, VA had double counted savings on different efforts and had not accounted for the cost of implementing other efforts.²¹

In addition to savings, leading companies that we spoke with have identified a variety of metrics they use to measure return on strategic sourcing investments, such as the spending under management, reductions in total cost of ownership, and efficiencies due to streamlined processes. Agency officials have identified, but have not quantified, some of these other benefits to strategic sourcing. Officials acknowledge that strategic sourcing efforts can produce administrative cost savings, but they are difficult to quantify. For example, DHS reported that consolidating procurements using agencywide contracts streamlines the acquisition process and saves the department significant administrative costs; however, DHS does not quantify these savings. Strategic sourcing efforts can also achieve efficiencies by changing buying behavior and managing demand for products and services. For example, OSD officials reported the Navy has been innovative in incorporating demand management into its approach for buying wireless services. Navy's wireless effort is down to eight plans and eight devices, and the service is now doing demand analysis.

Several agencies mentioned a need for sustained leadership support and additional resources in order to more effectively monitor ongoing initiatives. For example, DOD's PASS office—with only two people to advocate strategic sourcing policy and coordinate communication of component initiatives—does not track current strategic sourcing efforts at the component or departmentwide level. Some agencies that have developed metrics such as contract utilization rates report using those metrics to increase ongoing communication with leadership and maintain leadership investment. For example, VA officials said that they collect utilization metrics for the FSSIs and brief the Deputy Secretary on those metrics monthly.

²¹GAO, *VA Health Care: Methodology for Estimating and Process for Tracking Savings Need Improvement*, [GAO-12-305](#) (Washington, D.C.: Feb. 27, 2012).

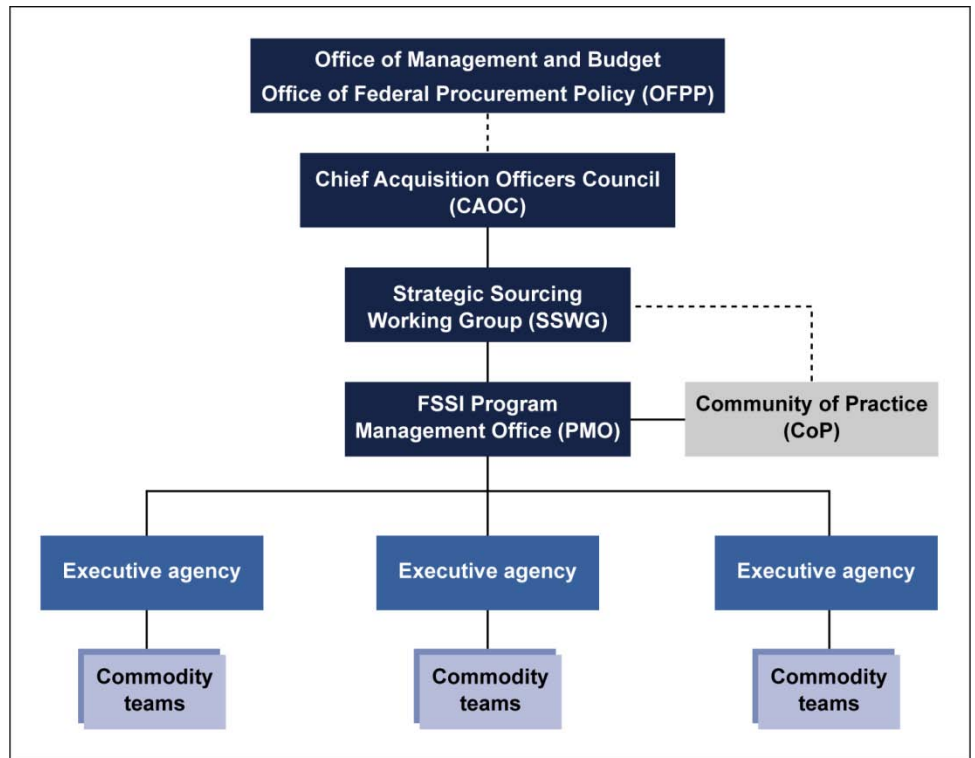
Federal Strategic Sourcing Initiatives Managed a Small Amount of Spending and Achieved Considerable Savings, but Greater Savings Are Possible

The FSSI program has adopted some leading practices for strategic sourcing, such as creating the structure and processes necessary to implement and monitor efforts. Through the end of fiscal year 2011, the program had only managed a small amount of spending through its four governmentwide strategic sourcing initiatives; however it reported achieving significant savings on those efforts. In fiscal year 2011, the FSSI program managed \$339 million through these governmentwide initiatives and reported achieving \$60 million in savings. However, the program faces key challenges in obtaining agency commitments to use new FSSIs and in increasing the level of agency spending directed through FSSI vehicles. For example, only 15 percent of governmentwide spending for the products and services covered by the FSSI initiatives went through the FSSI contracts in fiscal year 2011. Successfully addressing these challenges could help the FSSI program achieve greater governmentwide savings and efficiencies. In addition, the FSSI program has not yet targeted any of the government's 50 highest spend products and services for strategic sourcing, and therefore is missing the potential for more significant strategic sourcing savings and other benefits governmentwide.

The FSSI Program Governance Structure Allows for Interagency Collaboration on FSSIs

The FSSI program reports to OMB's Chief Acquisition Officers Council through its Strategic Sourcing Working Group. The Working Group, comprised of representatives of various agencies, vets and approves initiatives and sourcing strategies, and establishes the standards, processes, and policies governing FSSI. The FSSI Program Management Office supports the Working Group and coordinates the efforts of executive agents to implement individual FSSI initiatives. See figure 6 for the FSSI program governance structure.

Figure 6: FSSI Governance Structure



Source: GSA.

The FSSI Program Management Office is located within the GSA's Federal Acquisition Service. In addition, each of the four implemented strategic sourcing initiatives is also managed by GSA's Federal Acquisition Service staff. The FSSI Program Management Office provides guidance and oversight, reviews information and recommendations, and makes strategic program decisions. This structure has allowed the FSSI program to assess opportunities for procuring certain products and services, develop and implement sourcing strategies to leverage governmentwide buying power, and manage the strategic sourcing efforts. Agency representatives participate in developing and managing FSSIs through membership in commodity teams.

The FSSI Program Managed a Small Amount of Fiscal Year 2011 Spending through Several Federal Strategic Sourcing Initiatives and Reported Achieving Considerable Savings

In fiscal year 2011, the FSSI program managed \$339 million through governmentwide initiatives and achieved approximately \$60 million in savings, or almost 18 percent of the procurement spending it managed through these initiatives. As of fiscal year 2011, four initiatives had been implemented. The domestic delivery services and office supply initiatives—originally implemented in 2006 and 2007, respectively - are in their second iterations. The wireless telecommunications expense management initiative has been in place since 2008. The first print management initiative contracts were awarded near the end of fiscal year 2011, and initial efforts focused on assessing agencies' use of print output devices. Given the timing of the first contract award in late fiscal year 2011, FSSI Program Management Officials reported that no spending was yet managed through the contracts in that fiscal year. The number of agencies participating in the initiatives varied widely. For example, the FSSI Program Management Office reported that as of fiscal year 2011, five agencies participated in the Wireless Telecommunications Expense Management Services initiative, while 95 participated in the Domestic Delivery Services II initiative. Table 2 describes four implemented and two planned governmentwide strategic sourcing initiatives.

Table 2: Implemented and Planned Federal Strategic Sourcing Initiatives Managed by the FSSI Program Management Office, Fiscal Year 2011

Initiative	Description	Date implemented	Governmentwide spending on applicable products and services	Spending through strategic sourcing	Savings reported by FSSI Program Management Office
Office Supplies—Second Generation	Offers a catalogue of consumable office supplies	June 2010	\$1.6 billion	\$202 million	\$24 million
Domestic Delivery Services—Second Generation	Offers delivery service for small packages	August 2009	\$505 million	\$109 million	\$31 million
Telecommunications Expense Management Services	Optimizes wireless rate plans, reduces billing errors, and increases visibility into spending	January 2008	\$100 million	\$28 million	\$5 million
Print Management	Reduces equipment needed for printing, copying, scanning, and faxing, and includes print behavior and continuous process improvement components	September 2011	Spending not yet under management in fiscal year 2011	Spending not yet under management in fiscal year 2011	Spending not yet under management in fiscal year 2011

Initiative	Description	Date implemented	Governmentwide spending on applicable products and services	Spending through strategic sourcing	Savings reported by FSSI Program Management Office
SmartBUY	Leverages buying of commercial off-the-shelf software and services	Planned for fiscal year 2012	Not managed under the FSSI program in fiscal year 2011	Not managed under the FSSI program in fiscal year 2011	Not managed under the FSSI program in fiscal year 2011
Wireless	Offers rate plans and wireless devices	Planned for fourth quarter, fiscal year 2012	Not applicable as contracts were not yet awarded in fiscal year 2011	Not applicable as contracts were not yet awarded in fiscal year 2011	Not applicable as contracts were not yet awarded in fiscal year 2011

Source: GAO analysis of GSA data.

SmartBUY is an existing federal procurement vehicle that was started in 2003 and leverages the government's buying power to reduce the cost of commercial off-the-shelf software and services. As of the end of fiscal year 2011, SmartBUY was not classified as a Federal Strategic Sourcing Initiative, but the Strategic Sourcing Working Group in June 2012 formally accepted it as an FSSI Initiative. The FSSI Program Management Office plans that going forward, the FSSI SmartBUY will develop strategies to address as many large software publishers as possible. The planned initiative targeting wireless rate plans and devices will aim to deliver acquisition savings due to lower purchasing costs as well as operational savings through improvement of processes and information.

The FSSI Program Faces Challenges in Getting Top Spending Agencies to Commit to Governmentwide Strategic Sourcing Contracts

FSSI program officials that manage the governmentwide strategic sourcing initiatives told us that before contracts are awarded, obtaining spending commitments—especially from top spending agencies—is important in negotiating discounted prices and implementing a successful strategic sourcing effort. However, they noted that getting agency commitments to use the FSSI initiatives sometimes can be a challenge. Even agencies that are part of strategic sourcing commodity teams sometimes do not commit to using the resulting FSSI contracts. For example, DOD representatives participated in the commodity team for the Office Supplies II effort, and DOD spending represented a large portion of the total federal government spending on office supplies. However, prior to Office Supplies II implementation, DOD committed only to continue support of the FSSI for office supplies, but did not specifically commit to using Office Supplies II contracts. By contrast, other agencies such as VA provided the FSSI program with letters of intent that committed the agencies to use the Office Supplies II contracts once awarded. This

information was used by the FSSI program to negotiate better prices with vendors.

PASS officials acknowledged that although DOD participates in commodity teams for the Federal Strategic Sourcing Initiatives, the department has not fully committed to certain FSSI contracts for a variety of reasons, including having more sophisticated requirements or different mission needs than those of civilian agencies, and having existing contract vehicles in place when some FSSI initiatives were implemented. A PASS official said that the department would more likely commit to current and planned FSSI contracts if those contracts showed significant savings/best value over established DOD contracts, to include the cost of administration, fees, and transition. Officials added that they may also be more likely to commit to FSSI contracts if FSSI initiatives addressed products or services not previously addressed by DOD, or if the FSSI program selected products or services with more significant spending.

The FSSI Program Faces Challenges to Achieve Greater Governmentwide Savings and Efficiencies through Increased Use of Strategic Sourcing Contracts

Although reported spending through FSSI vehicles has increased from fiscal year 2009 to fiscal year 2011, spending through the vehicles continues to be limited. Only \$339 million, or 15 percent, of governmentwide spending for the products and services covered by the FSSIs went through the vehicles in fiscal year 2011. However, where spending went through FSSI vehicles, the program reported savings equivalent to almost 18 percent of the spending through those vehicles. Although not all spending is suitable for strategic sourcing, if even 1 percent of total federal procurement spending were directed through the FSSIs and achieved savings equivalent to 18 percent of that spending, the federal government could save over \$900 million.

Agencies cited a variety of reasons for not participating in the governmentwide FSSI initiatives. Some agencies told us they were more likely to engage in agencywide strategic sourcing than to participate in a governmentwide effort because they

- want to maintain control over their contracting,
- have unique requirements, or
- can get lower prices outside of the FSSI contract vehicles.

For example, Energy officials told us their buyers are purchasing some items through Office Supplies II, but also have gotten lower prices on other items from current vendors by comparing prices.

FSSI use is not mandatory and agencies face no consequence for not using the FSSI contract vehicles. According to OFPP and GSA officials, they have not made use of FSSI contracts mandatory governmentwide—preferring instead to establish FSSI contract vehicles that agencies will want to use. However, though GSA is the sponsoring agency, only 28 percent of its own office supply spending in fiscal year 2011 went through Office Supplies II. Agencies can mandate FSSI use agencywide, and the Air Force, Navy, DHS, and VA have issued policies making at least consideration of some FSSI use mandatory. GSA officials indicated that they are revisiting whether mandatory use policies would benefit the current FSSI initiatives.

In 2012, OMB released a Cross-Agency Priority Goal Statement which requires agencies to increase their agencywide strategic sourcing efforts and also requires agencies to increase their use of FSSI contracts by at least 10 percent in both fiscal years 2013 and 2014, unless they can establish that their current spending patterns on related products are more cost-effective. This is a positive step and may help to increase agency use of FSSI contracts; however, the guidance does not include information on how agencies will be held accountable for meeting these goals and it is too early to tell what effect the establishment of this goal will have.

The FSSI Program Has Not Targeted High Spending Categories of Products and Services Offering the Most Potential for Savings Governmentwide

Many of the governmentwide highest-spending categories of products and services exceed \$10 billion, and therefore offer great opportunities for savings if they can be strategically sourced successfully. In fiscal year 2011, federal spending on the top 50 products and services was \$283 billion, or 53 percent of total government procurement spending. Appendix II identifies the fiscal year 2011 highest governmentwide spending categories.

Current governmentwide strategic sourcing initiatives do not address any of the top 50 governmentwide products and services, in part because the FSSI program excludes some of them from consideration for governmentwide strategic sourcing. The FSSI program evaluates products and services based on savings potential, diversity of customer pool, and ease of implementation. In its fiscal year 2011 analysis of spending, before considering products and services for a governmentwide initiative, the program removed those considered unsuitable for strategic sourcing, including

- mission-critical products and services,

-
- products and services for which DOD alone or two or fewer departments accounted for 80 percent or greater of funding, and
 - construction, architect/engineering, and building maintenance services.

Consequently, only about one quarter of total spending—or \$129 billion—remained open for consideration for a governmentwide initiative.

Officials told us that where spending on a product or service is concentrated among just a few agencies, a better approach would be for these agencies to collaborate to strategically source it rather than establish a governmentwide effort. However, many high-spending categories of services with spending spread more broadly across agencies are also not currently being targeted. FSSI Program Management Officials acknowledged that services comprise a high volume of governmentwide procurement spending, and that the FSSI program cannot ignore them for much longer.

Current FSSI contracts address products and services that have relatively low spending when compared to those that are among the top 50. For example, all products procured under the Office Supplies II FSSI combined would rank 134th in fiscal year 2011 federal procurement spending. FSSI officials reported that they selected FSSI products and services for reasons other than a high spending level, which included agency adoption and standard purchase requirements across government. For example, FSSI officials explained that the current FSSIs, including Office Supplies II, were selected to demonstrate that strategic sourcing could be successful with simpler commodities before they pursued more complicated products and services. They also may select a product or service that an agency has already been considering to build on momentum. For example, an upcoming FSSI initiative for publication licenses was chosen because of interest by the Library of Congress. The Library of Congress will also lead the initiative, which will be the first time that GSA will not be the executive agent for an FSSI effort, but this FSSI only addresses an estimated \$500 million to \$600 million in federal procurement spending.

Conclusions

Current fiscal pressures and budgetary constraints have heightened the need for agencies to take full advantage of strategic sourcing and other efficiencies. Government agencies and commercial firms tend to have more spending managed through strategic sourcing efforts when they incorporate leading practices such as using their spend analysis to inform

their selection of products and services for strategic sourcing, devoting resources to strategic sourcing efforts, and measuring the benefits of ongoing efforts. These practices drive efficiencies and yield benefits beyond savings, such as increased business knowledge. Governmentwide strategic sourcing efforts have been initiated, and the four federal agencies we reviewed have improved and expanded upon their use of strategic sourcing to achieve cost savings and other benefits, but some agencies' leaders, such as OSD and the Army, have not made a sufficient commitment to strategic sourcing, investing limited resources and failing to establish goals and performance metrics. Energy's experience has been similar to DOD's, and we have recently made related recommendations to the Secretary of Energy.²² DHS and DLA have shown that agencies can successfully target high spend commodities for strategic sourcing. Despite these examples, selected agencies' current efforts and the FSSIs fall well short of addressing most of the federal procurement spending. Perennial high spend areas such as services offer the biggest potential for savings but have been largely ignored in strategic sourcing efforts. Focusing only on low risk, low return strategic sourcing strategies diminishes the government's ability to fully leverage its enormous buying power and achieve other efficiencies. Until top-spending federal entities, especially DOD and the FSSI program, better incorporate strategic sourcing leading practices, increase the amount of spending through strategic sourcing, and direct more efforts at high spend categories, billions of dollars in potential savings may be missed, denying agencies a valuable tool for maximizing their ability to carry out critical missions under tight budgets.

Recommendations for Executive Action

To improve departmentwide strategic sourcing efforts at DOD, we recommend that the Secretary of Defense direct the Office of Acquisition, Technology, and Logistics to take the following five actions:

- Issue direction that
 - sets goals for spending managed through strategic sourcing vehicles,
 - establishes procedures for the identification and tracking of departmentwide and component strategic sourcing efforts through the PASS office,

²²[GAO-12-255](#).

-
- implements the PASS office strategic sourcing guidance,
 - links strategic sourcing to its Better Buying Power memorandum, and
 - establishes metrics, such as utilization rates, to track progress toward these goals.
- Evaluate whether the current resources of OSD's PASS office are sufficient to enable the office to fulfill its strategic sourcing mission.
 - Evaluate existing acquisition strategies for DOD's current departmentwide acquisitions, and where these represent a strategic sourcing approach, ensure that data on these programs are submitted to the PASS office.
 - Identify and evaluate the best way to strategically source DOD's highest spending categories of products and services (e.g., governmentwide vehicles, interagency collaboration, departmentwide vehicles).
 - Identify and submit to the FSSI program a list of products and services that, if developed as FSSIs, present the best opportunities for future DOD participation.

To improve strategic sourcing efforts at the Army, and in light of significant potential savings and performance improvements, we recommend that the Secretary of Defense take the following action:

- Evaluate whether the resources that the Army's Policy and Oversight Directorate has allocated to strategic sourcing are sufficient to enable the Directorate to fulfill its strategic sourcing mission.

To help ensure that VA's strategic sourcing efforts further reflect leading practices, and in light of significant potential savings and performance improvements, we recommend that the Secretary of Veterans Affairs direct strategic sourcing staff to take the following two actions:

- Based on analysis of agencywide spending, evaluate the best way to strategically source VA's highest spending categories of products and services (e.g., governmentwide vehicles, interagency collaboration, agencywide vehicles).
- Set goals for spending managed through strategic sourcing, and establish metrics, such as utilization rates, to monitor progress toward these goals.

To help ensure that government strategic sourcing efforts further reflect leading practices, and in light of significant potential savings and performance improvements, we recommend that the Director of OMB direct the Administrator of OFPP to take the following two actions:

-
- Issue an updated memorandum or other direction to federal agencies that includes guidance on calculating savings (including administrative cost savings) and establishes additional metrics to measure progress toward goals.
 - Direct the FSSI Program to report on the program's assessment of whether each top spend product and service governmentwide is suitable for an FSSI, with a plan to address those products or services that are suitable for strategic sourcing.

Agency Comments and Our Evaluation

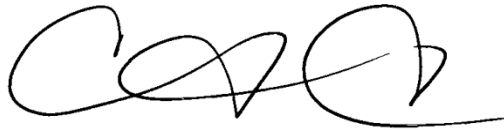
We sent copies of a draft of this report to DOD, Energy, DHS, VA, GSA, and OMB. In its written comments (reproduced in appendix III), DOD concurred with our recommendations and stated it would take action to adopt them. DHS comments (reproduced in appendix IV) emphasized the agency's commitment to improving and expanding its use of strategic sourcing. In its written comments (reproduced in appendix V), VA concurred with our recommendations and gave additional information on its strategic sourcing activities. As acknowledged in VA's letter, it did not provide this data in response to requests made during our review, and therefore we were unable to evaluate this additional data.

OMB staff provided oral comments concurring with our recommendations and stated they are developing guidance designed to accomplish the intended results in collaboration with a new senior level interagency governance group. In their oral comments, OMB staff also noted that our report compares the percent of spending through strategic sourcing to total procurement spending, rather than to spending on the products and services for which strategic sourcing is applicable. In response, we revised our draft report to more explicitly acknowledge that not all spending is suitable for strategic sourcing. However, during our review we observed that agencies held different views on whether certain categories of products and services are addressable through strategic sourcing, and our recommendations aim to encourage agencies to make this determination for each high spend product or service through a structured analysis.

DOD also provided technical comments which we considered and incorporated into the report as appropriate. Energy and GSA provided only technical comments, which we considered and incorporated into the report as appropriate.

As agreed with your offices, unless you publically announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the Director of OMB; the Administrator of OFPP; the Administrator of General Services; and the Secretaries of the Departments of Homeland Security, Energy, Veterans Affairs, and Defense, as well as the Secretaries of the Air Force, Army, and the Navy, and the Director of DLA. This report will also be available at no charge on GAO's website at <http://www.gao.gov>.

If you or your staff have any questions about this report or need additional information, please contact me at (202) 512-4841 or chaplainc@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Staff acknowledgments are provided in appendix VI.

A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke at the end.

Cristina Chaplain
Director
Acquisition and Sourcing Management

Appendix I: Scope and Methodology

We were asked to review the status of strategic sourcing efforts both at selected agencies and governmentwide, and identify challenges, leading practices, and potential for additional strategic sourcing savings. Accordingly, we assessed: (1) the extent to which selected agencies managed spending and achieved savings through strategic sourcing, and whether buying power could better be leveraged, (2) key challenges agency and Federal Strategic Sourcing Initiative (FSSI) officials face in strategically sourcing products and services, (3) the extent to which FSSIs managed spending and achieved savings through strategic sourcing, and whether governmentwide buying power could better be leveraged.

To evaluate agency strategic sourcing efforts, we selected for review four agencies—Department of Defense (DOD), Department of Homeland Security (DHS), Department of Veterans Affairs (VA), and Department of Energy (Energy)—among the top ten in fiscal year 2011 procurement obligations that accounted for 80 percent of total federal procurement spending. In addition, to more fully assess strategic sourcing at DOD, we reviewed the efforts of four component agencies—Air Force, Army, Navy, and the Defense Logistics Agency (DLA)—which accounted for 88 percent of DOD fiscal year 2011 spending, as well as departmentwide efforts managed by DOD’s Defense Program Acquisition and Strategic Sourcing (PASS) office, which reports to the Under Secretary of Defense for Acquisition, Technology, and Logistics (AT&L).

We requested and analyzed data on active and planned agencywide strategic sourcing initiatives, and any other efforts they might have begun, but discontinued. We asked the agencies for fiscal years 2009 through 2011 information on:

- Federal Procurement Data System—Next Generation (FPDS-NG) Product Service Codes associated with the initiatives
- spending through their strategic sourcing vehicles
- amount of savings achieved
- amount of any savings through means other than cost reduction or avoidance¹
- methods for calculating savings

¹Other means of achieving savings—often referred to as soft savings—include demand management, changes in buying behavior, process improvements, or use of less resources (including staff time) in processing transactions.

To avoid double counting, we excluded agency data on spending and savings achieved through FSSIs, and limited our analysis to the data provided on their agencywide initiatives. We did not independently verify this information that agencies reported to us, but we did assess information from agency officials about the reliability of the data and resolved some discrepancies. We determined that these data were sufficiently reliable for the purposes of analyzing agency-reported strategic sourcing spending and savings data.

To identify the products and services with the highest federal procurement spending—both governmentwide and by our selected agencies—we analyzed fiscal year 2011 data from the FPDS-NG. To assess the reliability of the FPDS-NG, we reviewed existing documentation and electronically tested the data to identify obvious problems with completeness or accuracy. We determined that these data were sufficiently reliable for the purpose of reporting governmentwide and agency spending on products and services.

At the selected agencies and the General Services Administration (GSA), we interviewed strategic sourcing officials to determine the status of current and planned governmentwide and agencywide strategic sourcing efforts, with a focus on key challenges and leading practices. Specifically, we asked about

- governance structure,
- obstacles to strategic sourcing,
- enablers or good practices in strategic sourcing,
- agencywide initiatives,
- participation in governmentwide initiatives,
- spend analysis, and
- savings and potential other benefits from strategic sourcing efforts.

We also obtained and reviewed agency strategic sourcing policies and other documentation, including spend analyses, where applicable. In addition, we reviewed previous GAO reports on leading company practices for strategic sourcing as well as related reports on acquisition, contract management, government streamlining, and duplication, overlap, and fragmentation in the federal government. We also reviewed work papers from a 2012 engagement on best commercial practices for acquiring services. In addition, we examined related testimony before various congressional committees. Furthermore, we reviewed the Defense Business Board 2011 Report to the Secretary of Defense on Strategic Sourcing, as well as literature from industry sources on

successful strategic sourcing efforts. To examine how agencies consider small businesses in the strategic sourcing process, we interviewed personnel at DHS and VA Offices of Small and Disadvantaged Business Utilization and the Air Force Office of Small Business. We also analyzed selected data to determine the number of small businesses participating in strategic sourcing efforts and the level of spending directed to small business contractors.

To evaluate governmentwide strategic sourcing, we examined the FSSI efforts led by GSA and overseen by the Office of Federal Procurement Policy (OFPP). We interviewed strategic sourcing officials at GSA to determine the status of current and planned FSSI initiatives, again looking at challenges and leading practices. We sought information on topics similar to those discussed with officials at our selected agencies, and obtained and reviewed FSSI documentation, including spend analysis. Similarly to the selected agencies, we requested and analyzed GSA fiscal years 2009-2011 information on Product Service Codes, governmentwide spending, and governmentwide savings associated with the FSSIs. In addition, we used the results of prior work on the Office Supplies II FSSI.² We did not independently verify the FSSI information GSA reported to us, but we did assess information from agency officials about the reliability of the data and resolved some discrepancies. We determined that these data were sufficiently reliable for analyzing reported governmentwide FSSI spending and savings data.

To assess OFPP's oversight of strategic sourcing, we met with OFPP officials to discuss

- the agency's role in advancing the FSSIs,
- the agency's role in facilitating agency participation in the FSSIs,
- consistency across agencies in estimating strategic sourcing savings, and
- selection of goods and services for future FSSIs.

We also obtained and reviewed OFPP documentation, including memoranda promoting increased use of strategic sourcing, and observed a monthly meeting of OFPP's Chief Acquisition Officers Council, Strategic Sourcing Working Group.

²[GAO-12-178](#).

We conducted this performance audit from August 2011 to September 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Top 50 Governmentwide Products and Services by Dollars Obligated, Fiscal Year 2011

1. Aircraft, Fixed Wing
2. Engineering and Technical Services
3. Other Automatic Data Processing and Telecommunications Services
4. Other Professional Services
5. Logistics and Support Services
6. Drugs and Biologicals
7. General Health Care Services
8. Operation of Government-Owned Facilities: Government-Owned Contractor-Operated Research and Development Facilities
9. Liquid Propellants and Fuels, Petroleum Base
10. Aircraft, Rotary Wing
11. Program Management/Support Services
12. Construction of Structures and Facilities: Miscellaneous Buildings
13. Destroyers
14. Guided Missiles
15. Combat, Assault, and Tactical Vehicles, Tracked
16. Airframe Structural Components
17. Automatic Data Processing Software
18. Guard Services
19. Gas Turbines and Jet Engines, Aircraft, Prime Moving; and Components
20. Construction of Structures and Facilities: Office Buildings
21. Miscellaneous Aircraft Accessories and Components

-
22. Systems Engineering Services
 23. Other Management Support Services
 24. Submarines
 25. Defense Aircraft: Operational Systems Development
 26. Facilities Operations Support Services
 27. Fuel Oils
 28. Precious Metals Primary Forms
 29. Technical Assistance
 30. Dairy Food and Eggs
 31. Construction of Structures and Facilities: Other Non-Building Facilities
 32. Miscellaneous Communications Equipment
 33. Automated Information System Design and Integration Services
 34. Maintenance Repair and Rebuilding of Equipment: Aircraft and Airframe Structural Components
 35. Medical and Surgical Instruments, Equipment, and Supplies
 36. Lease or Rental of Facilities: Office Buildings
 37. Space Vehicles
 38. Automatic Data Processing Systems Development and Services
 39. Other Administrative Support Services
 40. Trucks and Truck Tractors, Wheeled
 41. Ground Effect Vehicles
 42. Defense Missile and Space Systems: Advanced Development

- 43. Maintenance, Repair or Alteration of Real Property: Miscellaneous Buildings
- 44. Combat, Assault, Tactical Vehicles, Wheeled
- 45. Other Research and Development: Applied Research and Exploratory Development
- 46. Air Charter for Things
- 47. Nuclear Reactors
- 48. Passenger Air Charter Service
- 49. Other Research and Development: Basic Research
- 50. Maintenance Repair and Rebuilding of Equipment: Communication, Detection and Coherent Radiation Equipment

Appendix III: Comments from the Department of Defense



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

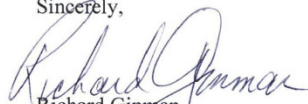
SEP 12 2012

Ms. Cristina Chaplain
Director, Acquisition and Sourcing Management
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Ms. Chaplain:

This is the Department of Defense (DoD) response to the GAO Draft Report, GAO-12-919, "STRATEGIC SOURCING: Improved and Expanded Use Could Save Billions in Annual Procurement Costs," dated August 15, 2012 (GAO Code 120999). Detailed comments on the report recommendations are enclosed.

Sincerely,


Richard Ginman
Director, Defense Procurement
and Acquisition Policy

Enclosure:
As stated

GAO DRAFT REPORT DATED AUGUST 15, 2012
GAO-12-919 (GAO CODE 120999)

“STRATEGIC SOURCING: IMPROVED AND EXPANDED USE COULD SAVE
BILLIONS IN ANNUAL PROCUREMENT COSTS”

DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATION

RECOMMENDATION 1: The GAO recommends that the Secretary of Defense direct the Office of Acquisition, Technology and Logistics to take action to issue direction that:

- a. Sets goals for spending managed through strategic sourcing vehicles,
- b. Establishes procedures for the identification and tracking of departmentwide and component strategic sourcing efforts through the PASS office,
- c. Implements the PASS office strategic sourcing guidance,
- d. Links strategic sourcing to its Better Buying Power memo, and
- e. Establishes metrics, such as utilization rates, to track progress toward these goals.

DoD RESPONSE: Concur. Specifically, the Department will set strategic sourcing goals based on DoD spend, establish procedures for identification and tracking of Department-wide and Component strategic sourcing efforts, publish and implement DoD-Wide Strategic Sourcing Program Concept of Operations, link strategic sourcing to Better Buying Power, and establish metrics to track progress towards the Department’s goals. The Department will complete actions 1.a. through 1.d. within 6 months after the final GAO report is published. The Department will complete the establishment of metrics within one year after the final GAO report is published.

RECOMMENDATION 2: The GAO recommends that the Secretary of Defense direct the Office of Acquisition, Technology and Logistics to take action to issue direction that evaluates whether the current resources of OSD’s PASS office are sufficient to enable the office to fulfill its strategic sourcing mission.

DoD RESPONSE: Concur. The Department will evaluate whether current resources of OUSD(AT&L) DPAP/PASS office are sufficient with respect to its role in supporting the strategic sourcing mission. The evaluation will be completed within 6 months after the final GAO report is published.

RECOMMENDATION 3: The GAO recommends that the Secretary of Defense direct the Office of Acquisition, Technology and Logistics to take action to issue direction that evaluates existing acquisition strategies for DOD’s current departmentwide acquisitions, and where these represent a strategic sourcing approach, ensure that data on these programs are submitted to the PASS office.

DoD RESPONSE: Concur. The Department will identify current Department-wide business arrangements, and where these represent a strategic sourcing approach, ensure that data on these

programs are tracked. The Department will develop a listing of Department-wide business arrangements within 6 months after the final GAO report is published.

RECOMMENDATION 4: The GAO recommends that the Secretary of Defense direct the Office of Acquisition, Technology and Logistics to take action to identify and evaluate the best way to strategically source DOD's highest spending categories of products and services (e.g. government wide vehicles, interagency collaboration, department wide vehicles.)

DoD RESPONSE: Concur. The Department will identify and evaluate the best way to strategically source DOD's highest spending categories of products and services. The Department's evaluation will be completed within 6 months after the final GAO report is published.

RECOMMENDATION 5: The GAO recommends that the Secretary of Defense direct the Office of Acquisition, Technology and Logistics to take action to identify and submit to the FSSI program a list of products and services that, if developed as FSSIs, present the best opportunities for future DOD participation.

DoD RESPONSE: Concur. The Department will identify and submit to the FSSI program a list of products and services that present the best opportunities for future DOD participation. The Department will submit this list to the FSSI program within 6 months after the final GAO report is published.

RECOMMENDATION 6: The GAO recommends that the Secretary of Defense take the action to evaluate whether the resources that the Army's Policy and Oversight Directorate has allocated to strategic sourcing are sufficient to enable the Directorate to fulfill its strategic sourcing mission.

DoD RESPONSE: Concur. The Department will direct the Deputy Assistant Secretary of the Army for Procurement to evaluate whether the resources within its Policy and Oversight Directorate are sufficiently allocated to fulfill its strategic sourcing mission. The evaluation and the resulting decision or plan will be completed and submitted to the Department within 6 months after the final GAO report is published.

Appendix IV: Comments from the Department of Homeland Security

U.S. Department of Homeland Security
Washington, D.C. 20528



**Homeland
Security**

September 12, 2012

Cristina Chaplain
Director, Acquisition and Sourcing Management
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Re: Draft Report GAO-12-919, "STRATEGIC SOURCING: Improved and Expanded Use Could Save Billions in Annual Procurement Costs"

Dear Ms. Chaplain:

Thank you for the opportunity to review and comment on this draft report. The U.S. Department of Homeland Security (DHS) appreciates the U.S. Government Accountability Office's (GAO's) work in planning and conducting its review and issuing this report.

The Department is pleased that the report recognizes DHS's strategic sourcing accomplishments, including that of the four agencies reviewed, and that DHS had the most initiatives and reported the highest percentage of spending through strategic-sourcing efforts. Further, DHS has adopted a strategic-sourcing approach, which includes standing up a centralized office, setting targets for use of strategic sourcing contracts, and holding managers accountable for meeting goals. Additionally, the report states that DHS is the only of four agencies to have addressed the top 10 spending categories of products and services. GAO also cited DHS's strategic-sourcing vehicles for engineering and technical services as examples highlighting the Department as having successfully tackled high-spend and complex services.

While the report contains no recommendations specifically directed to DHS, the Department remains committed to improving and expanding its use of strategic sourcing to achieve cost savings and other benefits.

Again, thank you for the opportunity to review and comment on this draft report. We look forward to working with you in the future.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim H. Crumpacker".

for
Jim H. Crumpacker
Director
Departmental GAO/OIG Liaison Office

Appendix V: Comments from the Department of Veterans Affairs



DEPARTMENT OF VETERANS AFFAIRS
Washington DC 20420

September 14, 2012

Ms. Christina Chaplain
Director, Acquisition and
Sourcing Management
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Chaplain:

The Department of Veterans Affairs (VA) has reviewed the Government Accountability Office's (GAO) draft report, ***"STRATEGIC SOURCING: Improved and Expanded Use Could Save Billions in Annual Procurement Costs"*** (GAO-12-919). VA generally agrees with GAO's conclusions and concurs with GAO's recommendations to the Department.

The enclosure specifically addresses GAO's recommendations and provides general comments to the draft report. VA appreciates the opportunity to comment on your draft report.

Sincerely,

A handwritten signature in black ink that reads "John R. Gingrich".

John R. Gingrich
Chief of Staff

Enclosure

Enclosure

Department of Veterans Affairs (VA) Comments to
Government Accountability Office (GAO) Draft Report
***“STRATEGIC SOURCING: Improved and Expanded Use Could Save Billions
in Annual Procurement Costs”***
(GAO-12-919)

GAO Recommendation: To help ensure that VA’s strategic sourcing efforts further reflect leading practices, and in light of significant potential savings and performance improvements, we recommend that the Secretary of Veterans Affairs direct strategic sourcing staff to take the following two actions:

a. Based on analysis of agency-wide spending, evaluate the best way to strategically source VA’s highest spending categories of products and services (e.g. government-wide vehicles, interagency collaboration, agencywide vehicles).

VA Response: Concur. As outlined in the report, and with the additional information provided below, VA has embraced this concept of strategic sourcing and continues to dedicate significant effort in standing up the Strategic Acquisition Center (SAC). The SAC is working directly with the new VHA Program offices in generating strategic sourcing contract vehicles for a wide range of healthcare and related products and services. Our Technology Acquisition Center (TAC) is also continuing successful strategic sourcing efforts with the VA Office of Information and Technology in generating contract vehicles for IT products and services. Business Cases have been developed for the following products and services. If these Businesses Cases are successfully implemented, potential savings range from \$668 to \$810 million.

Business Case Commodity/Service	Estimated Savings Range
• Multi-Function Devices	\$18M-\$27M
• Mobile Devices	\$5M
• Software License Purchase, Management and Maintenance	\$110M
• Laboratory Supplies	\$0.02M-\$0.09M
• Locum Tenens	\$130M
• Affiliate Negotiation Teams	\$101M*
• Steel Index	\$7M
• Radiology Decision Support	\$130M-\$150M
• Furniture	\$21-\$51M
• Medical/ Surgical Products (21 Commodities/Service Groups)	\$54M-\$75M
• Natural Gas Index Pricing	\$32M-\$45M
• Electricity	\$10M
• Maintenance, Repair, and Operations (MRO)	\$50M-\$150M

Enclosure

Department of Veterans Affairs (VA) Comments to
Government Accountability Office (GAO) Draft Report
***“STRATEGIC SOURCING: Improved and Expanded Use Could Save Billions
in Annual Procurement Costs”***
(GAO-12-919)

VA also continues to actively participate on the OMB Strategic Sourcing Working Group which focuses on identifying best ways to strategically source high spend products and services.

b. Set goals for spending managed through strategic sourcing, and establish metrics, such as utilization rates, to monitor progress toward these goals.

VA Response: Concur. VA agrees with monitoring strategic sourcing efforts and establishing metrics to assist in evaluating and managing strategic sourcing activities. VA, and VHA in particular, is establishing utilization rates for competitively awarded commodities. These rates will be assessed as an ongoing program activity to ensure that, once awarded, strategically sourced items deliver anticipated returns. Additionally, VHA is increasing its standardization of inventory management practices as a foundational activity to enable enhanced monitoring of inventory use. These improved standardization and performance management activities will provide a framework for documenting progress in achieving strategic sourcing goals.

General Comments:

Page 8, Figure 3: GAO states VA spent \$17.4 billion in fiscal year (FY) 2011 with only 1.4 percent of that amount spent through strategic sourcing vehicles. This finding is based on the limited spend information VA provided to GAO during the study. While VA has been maintaining a fairly complete tally on savings and cost avoidance, it had not been maintaining a complete database on strategic sourcing contract spending. However, the Department very recently implemented a database that tracks spending through strategic sourcing vehicles and has identified \$5.68 billion spent through those vehicles in FY 2011. This equates to 33 percent of all Federal Procurement Data System (FPDS) spending versus the 1.4 percent stated in the draft report.

Page 8, Figure 3: GAO states that only .32 percent savings were achieved through strategic sourcing. However, when adding the new information into the calculation, VA has achieved 13 percent in cost avoidance and cost savings.

Page 17, paragraph 1, sentence 6: GAO states VA reported four initiatives covering flags, hearing aids, wireless devices, and affiliate negotiation teams. This statement is correct given the limited information provided. However, to provide a more accurate picture of the full range of strategic sourcing underway at VA, pharmaceutical and related items should be considered among ongoing strategic sourcing commodities. VA has awarded national contracts for dispensed pharmacy products including national contracts for pharmaceuticals, intravenous solutions, and nutritional supplements. Further, the Department has an in-depth Pharmacy Prime Vendor program through which nearly all pharmaceutical and related items are distributed. This prime vendor

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contract provides an additional savings through a "negative" distribution fee. For FY 2011 \$4.185 Billion was spent through the Pharmacy Prime Vendor contract and the negative distribution fee savings amounted to \$225 million in FY 2011 alone. Similar savings are expected for FY 2012.

Appendix VI: GAO Contact and Staff Acknowledgments

GAO Contact

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Staff Acknowledgments

In addition to the contact named above, W. William Russell, Assistant Director; Joseph Fread; Laura Greifner; Julia Kennon; John Krump; Leigh Ann Nally; Michael Palinkas; Ralph Roffo; Roxanna Sun; and Ann Marie Udale made key contributions to this report.

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